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SUBJECT: BIOFUEL CONFERENCE HIGHLIGHTS PROGRESS AND OBSTACLES IN THE  
AFRICAN BIOFUEL INDUSTRY

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11. SUMMARY. An inaugural Biofuels Markets Africa conference took place in Cape Town on November 30 - December 1, 2006. The event attracted over 200 attendees, primarily from African industry and governments. Key topics included government policies and incentives to support investment, production quality standards, Africa's potential for biofuels, and opportunities under the Kyoto Protocol Clean Development Mechanism (CDM). Most speakers presented an upbeat view of both the market and Africa's potential within the market. But almost all also noted the need for regional standards and policy frameworks, none of which are currently in existence. The Southern African Development Community (SADC) is working on a framework which could be in effect within two to four years. END SUMMARY.

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BIOFUEL CONFERENCE WELL-ATTENDED  
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12. Greenergy of the UK sponsored a Biofuels Markets Africa conference in Cape Town on November 30 - December 1, 2006. Over 200 industry, banking and government representatives attended, well above planned capacity. The conference had to be moved to a larger room for its second day. Presenters included CEOs and ranking government officials. Presentations were technical and geared to an audience with understanding beyond the basics. The audience also included many small-scale entrepreneurs. The delegate list is available upon request from the EST Officer, US Embassy Pretoria.

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AFRICA NEEDS A REGIONAL STRATEGY  
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13. The major themes developed at the conference included lessons learned from biofuels industries in Europe; regulation, development and facilitation of the African biofuel markets; biofuels and the CDM; and project financing and management. Various speakers offered opposing viewpoints on whether or not biofuels would be an advantageous new market for Africa.

14. Greenergy CEO Andrew Owens opened the conference with a session on lessons learned from Europe. Greenergy, a European biofuels company with several biofuel plants in Europe, acquires biofuel from global sources and sells it to large European consumers. According to Owens, the company's success is due to Europe's duty exemptions, use obligations, and tax incentives for the biofuel industry.

15. Owens noted that low-cost exporters are targeting Europe, but the rise in feedstock should shake out the marginal companies. Africa must consider whether or not it is globally competitive. Owens opined that Europe would not be a good export destination for African exporters. Owens also highlighted increased costs, including increased terminal costs (biofuels require three times more tank storage than petroleum). Owens did note that Africa could benefit from the CDM, which might act as an incentive to enter the European market.

16. Owens emphasized the need for regional consistency. As Owens noted, a policy variance throughout the region does not help a developing industry, and a disconnect between fuel and the agricultural supply chain is a disaster. Constant revisions in government policies lead to confusion within the industry. His remarks were widely applauded by the mostly industrial crowd.

17. South African Biodiesel Managing Director Franz Hugo emphasized the need for industry and government involvement in the entire fuel chain. According to Hugo, biofuels could be a key multiplier for rural development if the fundamentals were right. Subsistence farmers need cash and could be involved in commercial aspects of biofuels, but they will need a steady sustainable market for their products. Hugo noted that the government must be involved in quality assurance. Backyard production of poor quality fuel will only cause consumers to lose faith in the product. He emphatically stated that all African Countries must have the same standards at the regional level. Ministers need to coordinate with each other to develop comparable fuel incentives, tax breaks, and quality standards.

18. SADC Senior Program Manager for Crop Development Simon Mwale agreed that Southern Africa must act regionally. SADC commissioned a study on biofuels which was completed at the end of 2005. The study raised key questions which SADC is trying to answer. These questions include what institutional framework should be used, what

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standards to use and which technical measures to adopt. SADC is working with the South Africa Biofuels Association to develop regional standards and to find R&D solutions to regional obstacles to the industry. The primary goal of the study is to break down regional barriers.

19. When questioned further by the audience about SADC's timetable, Mwale commented that he could not be specific. If the first biofuel meeting can be held in the first quarter of 2007, then the policy framework might be ready for country consideration by the end of 2007. The countries would then amend or adopt the framework and return it for SADC consideration. Mwale concluded that adoption of a regional framework would probably not occur for at least three to four years. AFDB Renewable Energy Expert Youseel Araoui admitted that the AFDB had no biofuel projects and had put no resources into the area yet. Their focus has been on wind and hydropower.

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WHY CARBON CREDITS ARE NOT WORKING  
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10. The Clean Development Mechanism (CDM) is a flexible mechanism from the Kyoto Protocol. This mechanism was designed to make it easier for industrial nations to meet greenhouse gas emission reductions and to assist developing countries with sustainable development. The CDM is a market-based instrument. To qualify for CDM credits, projects must meet certain criteria, one of which is the additionality test. This test requires that projects are given credits only if they would not have been implemented under a business-as-usual scenario. In other words, the project must add something additional.

11. EcoSecurities South African Country Director Henk Sa zeroed in on one key problem for CDM, especially in South Africa. He noted that South Africa does not have a one-stop shop for CDM, although the country is working on it. Only one percent of all CDM is even located within Africa and over fifty percent of that one percent is within South Africa. Sappi (an international South Africa-based

forestry product company) CDM Project Leader Grant Little expanded on this theme. South Africa does have a designated national authority (DNA) sited within the Department of Mines and Energy (DME). The process to achieve CDM certification is similar to that used for environmental impact assessments. Many South Africa companies are exploring CDM projects, but little has been formalized. According to Little, the numbers tell the story. India has 450 projects; China has 177; Brazil has 190. There are only four registered projects for South Africa. Little asked: is CDM working in South Africa? He answered himself with a resounding "No."

¶12. Little explained that there are positive aspects to doing business in Africa that should make CDM feasible. These factors include availability of financing, political and economic stability, advanced technology and a government that is pushing renewable energy. According to Little, negative influences outweigh these positive aspects. South Africa and the UN both have seemingly endless red tape. Transaction costs are high. Many African companies are worried about what will happen after 2012, especially if large projects are involved. Additionality seems to be a particular hurdle that South Africa cannot surmount. Finally, South Africa has extremely low energy costs so there is no push for CDM.

¶13. Little offered no "off-the-shelf" solutions because different communities require different solutions. He noted that many of these obstacles can be overcome. Every country has to deal with the UN's red tape; every country has concerns about 2012. Little emphasized that South Africa's manufacturing infrastructure is a huge enabler for the development of the industry, but the energy and government infrastructures are bigger brakes. Many South African projects face what Little called the "Catch 22 of CDM" - to get bank financing the project must be viable but to get the carbon credit, the project must prove it needs the credit to become viable.

-----DEVELOPING AN LARGE-SCALE  
AFRICAN PRODUCER MARKET  
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¶14. Engen Petroleum Refinery Strategic Planner Ian Baxter discussed the role of refineries in building a market for biofuels in Africa. He noted that a five percent ethanol mixture is currently permitted in South Africa where standards are already aligned with the EU. Baxter then refuted earlier comments that biofuels could replace

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petroleum in South Africa. He noted that petroleum is a finished product that is easy to replace with imported product if a shortage arises. There are no additional changes needed to add more petroleum. Biofuels require extensive logistical changes by refineries, especially in transportation planning. Refineries require completely separate logistics systems to transport biofuel. (Comment. Petroleum in South Africa is transported primarily by pipeline until the last few kilometers to the pump when tankers are employed. Biofuels require transport by road from the refinery to the pump. End Comment.)

¶15. SASOL Alternate Energy Group manager Brian Tait agreed that there was little likelihood of profit with biofuels. SASOL has concluded that until crude reaches a minimum of USD 89 per barrel, there will be no profit in this market. Tait noted that even at this price, SASOL would need high tax incentives to make the market work.

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SMALL-SCALE PRODUCERS ARE A VIABLE OPTION  
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¶16. Growing Fuels Managing Director Willie van der Westhuizen felt there was a niche for small-scale biofuel producers, especially in Africa. His company has been piloting a small-scale biodiesel plant near Stellenbosh in the Western Cape province of South Africa, in partnership with Spier and AGAMA Energy. Licensing is still in process and they hope to begin production in 2007. They market to local trucking fleets, a niche market. The goal of the project is to

produce a replicable project for the rural areas. He envisions small-scale producers (under 1000 tons per year) producing exclusively for local farmers and truckers.

¶17. Van der Westhuizen sees small-scale production not as replacement fuel production, but as a development strategy. Small plants can stimulate the local economy. Large obstacles remain including the cost for quality control. At this time, the cost of testing a batch of biofuel is equal to the cost of producing that fuel. His company is considering new testing equipment from Germany, or asking the government for subsidies for small producers. Stabilizing the fuel stock supply chain is critical for small-scale success. Van der Westhuizen says, "there is no value in starting if the agricultural sector is not involved in development of the industry."

¶18. African Alternative Energy CEO Thomas Munn provided information on micro-scale production. His firm operates a pilot farm near the Lesotho border. The goal is to develop a completely self-sufficient farm. Munn's farm investigated using jatropha as a fuel source, but it had too large harvest costs and required too much manual labor. The farm managers have developed farming, irrigating, welding and rock crushing vehicles that operate on biofuel. Munn says he wants "fuel used where it is made and made where it is needed." He envisions new fuel companies every 50 kilometers along the roads, with all control over production and fuel stock harvesting vested in the local communities.

¶19. Three micro pilots are in production. A feedstock company outside of Pinetown, near Durban, produces 450 liters per eight hours of operator time. An organic farm near Ficksburg operates an entire range of farming equipment on biofuel made primarily from sunflower oil. The extra revenue was used to pay for the installation of the biofuel machinery. A soybean pressing plant in the Free State province is currently pressing 75,000 liters of soybean fuel per year. The crops are planted in rotation with maize and farming costs are reduced by using biofuel generated from those plants. Munn concluded that the technology and the will are available in South Africa, but the legislation is missing.

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CAN BIOFUELS BE PROFITABLE?  
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¶20. Barclay's Agribusiness Specialist Fazel Moosa explained that the South African sugar industry is protected and that sugar prices are established by the government. The state-owned power company ESKOM will not pay the government-established prices for fuel stocks. Moosa said the banks were concerned about potential surpluses and unusable byproducts. Barclay's market analysis showed that even when crude oil is at USD 60 per barrel, the biodiesel industry would operate at a loss unless the government provides support.

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¶21. According to Moosa, the University of Pretoria, in conjunction with the University of Missouri, modeled the biofuel industry in South Africa. The results showed that a large-scale industry would need 45 percent import tariffs and rebates on fuel to become profitable. It might be possible to create a viable industry using a "massification" scheme of linking small scale farmers to ensure a steady supply chain.

¶22. AGAMA Energy Managing Director Glynn Morris concurred, noting that rural electrification is a key goal for biofuels. His company has one project operating in Lesotho, another at a rural school in the KwaZulu Natal province of South Africa. Each uses a small household (or school-sized) digester to generate biomass energy.

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US TAKES OPPORTUNITY TO SPEAK  
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¶23. When a Finnish speaker failed to appear, Organic Fuels' Josh Steward took his place in the conference agenda. Organic Fuels of

the U.S. has production locations throughout the U.S. in the Midwest, South and central California. The trend is for larger facilities because of economies of scale. He described two projects, including one in Denton, Texas, where landfill gas is used to generate enough fuel to take Denton's public buildings off the electric grid. Steward also seized the opportunity to speak on ethanol standards, urging the African audience not to simply adopt European standards at the exclusion of U.S. and other standards.

¶24. COMMENT. The conference generated excitement and provided biofuel experts across the continent and across specialties an opportunity to exchange views. The audience appeared frustrated by the lack of regional cooperation among African governments and grasped the necessity for regionally harmonized incentives if this industry is to prosper.      END COMMENT

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